Dunham

Is Our Industry Prepared for Retirees' Longer Lifespans?

By Salvatore M. Capizzi, CEPA
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Imagine if you were 120 years old.

When I first read an article suggesting that within the next 50 years, it will not be uncommon for people to live to be 120 or even 130 years old, I was horrified.

Why would I ever want to do that?

My feelings about living to that age include decades of immobility, doctors, lots of pills, no hair, pain, and all the other attributes I associate with being "old." I felt I would burden my children and not add much value to their lives, not because I did not want to, but because I simply could not.

As I read the article further, I learned about the excellent quality of life that will be available at those ages. It spoke about advancements in science and genetics, making living at that age enjoyable, active, and fulfilling. I felt better about the prospects of this proverbial fountain of youth, but it got me thinking.

If I lived that long, while physically I might live a comfortable life, would I be ready financially? My retirement planning thus far bore little resemblance to this brave new world I was facing.

I started thinking of the effects of living 40 to 50 years past retirement, and it did not take long for the horror of what even a 2% inflation rate compounding over that longer period would have on my retirement.

I was amused when I started thinking about the amount of assets I would need for food in retirement until that number seemed to be over $2.7 million for both me and my wife.

At this moment, my thoughts turned to retirement portfolios and traditional investment wisdom. Throughout my career, the financial services industry has taught us that portfolios should become more conservative as clients age. The premise was sound because we wanted to protect assets when clients needed them most.

However, this thinking was based on retirements lasting two or three decades. When examining portfolios that must last a retirement spanning five or six decades, our analysis revealed something startling. An overly conservative investment approach could be as damaging to portfolio longevity as poor market returns early in retirement.

This discovery challenges our fundamental understanding of sequence risk. The industry has long focused on protecting portfolios from market downturns in early retirement years. Yet our research shows that insufficient returns over extended periods create their own form of sequence risk. One that slowly but inevitably depletes retirement resources.

I examined various portfolio allocations across different time horizons to quantify this effect. The results proved concerning. Portfolios structured according to traditional conservative allocation models showed high probabilities of depletion well before these extended retirement periods concluded.

A **retirement investment paradox** emerged, and an **inflation sequence risk** that could not be ignored.

This realization led us to conduct extensive research on retirement in this new paradigm. Our findings suggest reconsidering some assumptions about retirement planning, and explore why traditional approaches may not fully support retirees' long-term financial security.

This paper explores this modern retirement paradigm and examines historical data and inflation scenarios. We illustrate why traditional approaches to retirement planning may need fundamental reconsideration to effectively address these evolving challenges.

Could the First Person to Live to be 150 Years Old be Alive Today?

The Bet

In 2000, Steven Austad, a biogerontologist known for his research on aging, made a famous bet with fellow scientist Jay Olshansky about human longevity. The bet was about whether someone born before 2001 would live to be 150 by the year 2150.[1]

The bet was for $500 in 2000, which was then invested with the idea that it would grow to about $500 million by 2150 and be inherited by their heirs. Austad bet that someone alive in 2000 would live to be 150 by 2150, while Olshansky bet against this possibility.

Austad's optimism was partly based on the rapid progress in understanding the biology of aging and potential interventions to slow or, even more remarkably, reverse it.

But Austad is not alone.

Lifespan: *Why We Age-and Why We Don't Have To*

In his iconic 2019 book, Lifespan: *Why We Age-and Why We Don't Have To*, David A. Sinclair, PhD, AO, appears to agree with Austad. Sinclair, professor of genetics at Harvard Medical School and director of the Paul F. Glenn Center of Aging Research at Harvard, says:

> "And so most of us, when we think about living to 100, still think 'God forbid,' because we've seen what those final decades look like, and for most people, most of the time, they don't look appealing at all. Ventilators and drug cocktails. Broken hips and diapers. Chemotherapy and radiation. Surgery after surgery after surgery. And hospital bills; my God, the hospital bills."

He goes on to say:

> "But what if it didn't have to be that way? What if we could be younger longer? Not years longer but decades longer. What if those final years didn't look so terribly different from the years that came before them? And what if, by saving ourselves, we could also save the world?"

Sinclair presents a revolutionary perspective on aging, challenging the historical view of aging as an inevitable process he compares to changing seasons. Sinclair argues that aging should be seen as a treatable condition, potentially easier to address than complex diseases like cancer.

He suggests that universal regulators of aging exist across species, from yeast to humans, and can be

influenced by interventions such as NMN supplementation, vigorous exercise, or dietary changes. Drawing parallels to historical medical breakthroughs like germ theory and vaccinations, Sinclair suggests that understanding aging mechanics could significantly extend human health and lifespan. He proposes that with the right approach, the reversal or significant slowing of aging might be more achievable than previously thought.

Dario Amodei – CEO of Anthropic

In 2024, Dario Amodei published an extensive 15,000-word essay titled "Machines of Loving Grace: How AI Could Transform the World for the Better." Amodei serves as CEO of Anthropic, a San Francisco-based company focused on AI safety and research that aims to develop reliable, beneficial AI systems.

In his essay, Amodei presented bold predictions about artificial intelligence's potential impact on human longevity and health. He projected that "powerful AI" would eliminate most diseases, including cancers and Alzheimer's, within 7-12 years of its development.

Additionally, he anticipated AI would create breakthrough treatments for mental health conditions within 5-10 years. According to Amodei, these medical advances would ultimately lead to humans living significantly longer lives, with average lifespans potentially reaching 150 years, double the current life expectancy.

These predictions are consistent with emerging trends in longevity research and biomedical AI applications. Scientists at institutions like Harvard Medical School and the Buck Institute for Research on Aging have already demonstrated success in reversing aging in mice through genetic and cellular manipulation.

Major technology companies and research institutions are investing billions in AI-powered drug discovery and personalized medicine platforms. The convergence of artificial intelligence, genetic engineering, and regenerative medicine could indeed revolutionize human health and lifespan.

Morgan Stanley Research

In its May 22, 2024, research report, *The New Technologies for Longer, Healthier Lives*, Morgan Stanley Research highlights 10 "longshot" technologies poised to significantly extend human lifespans and improve quality of life in the coming decades. These innovations range from AI-driven drug discovery and reproductive technologies to bioprinting for organ transplants and cell reprogramming for personalized medicine.

The report suggests that some emerging therapies could extend the human health span by 10% to 15% in the near future, potentially adding decades to life expectancy.

These advancements aim not just at treating diseases but at fundamentally altering the aging process itself.

The implications of these technologies extend beyond health, potentially reshaping economic landscapes and investment opportunities. From a projected $105 billion market for obesity drugs by 2030 to a potential $140 billion market for targeted cancer therapies, these innovations promise to transform multiple fields.

While many of these technologies are still in the early stages and face regulatory challenges, their development signals a paradigm shift in how we approach aging and longevity, with far-reaching consequences for society, healthcare, and the global economy.

Financial Services Industry in Need of a Response.

The financial services industry remains remarkably unprepared for the possibility of 120 - 150-year lifespans, creating a potential economic devastation for future centenarians. Traditional retirement planning models, pension systems, and social security frameworks are still built around outdated assumptions of 80-90 year lifespans and retirement at age 65.

Investment firms generally continue to recommend portfolio allocations and withdrawal rates that would leave individuals financially destitute if they lived to be over 100 years old.

Most concerning is that personal retirement savings strategies generally promoted by financial advisors typically aim to sustain retirees for only 20-30 years post-retirement, potentially meaning 40+ years of life without adequate financial resources. The implications of this systemic unpreparedness will affect millions of people and they could outlive their retirement savings by decades, creating an unprecedented economic and social crisis.

Social security systems worldwide, already strained, could collapse under the weight of supporting a population living twice as long as initially designed. Without immediate and dramatic reformation of financial planning frameworks, extended human longevity could transform from a scientific triumph into an economic disaster.

How Our Industry Has Changed

I was taught the age-based asset allocation strategy when I entered the financial services industry. This simple approach recommended that an investor hold a percentage of fixed-income assets equal to their age, with the remaining portion invested in stocks. This resulted in a gradual decrease in stock allocation as the investor grew older to reduce risk.

At age 65, our client would have 65% in fixed income and 35% in equities, with the equity portion declining as they aged. This worked for us back then because we only solved for one retirement risk—Sequence Risk.

For the most part, our 65-year-old retiree was not anticipated to live much longer than a decade or two past retirement, so focusing on sequence risk made the most sense.

The Effect of Inflation if We Live Longer

The Federal Reserve has established a target inflation rate of 2%. It is important to note that this does not mean the Fed is pursuing a zero-inflation policy. This intentional target, designed to maintain economic stability, creates a fundamental challenge for retirement planning which merits deeper examination.

Our analysis focuses specifically on how this targeted inflation rate affects retirees over extended time horizons, as increasing longevity pushes retirement periods to 40 or 50 years.

This research addresses a critical question facing the financial services industry. How does the Federal

Reserve's 2% inflation target affect retirement resources when retirement spans four or five decades?

Understanding the magnitude of this impact proves essential for financial professionals who must develop strategies to maintain their clients' purchasing power throughout these extended retirement periods. The compounding effect of even this modest inflation target over such lengthy periods may reshape how we approach retirement planning.

Grande or Venti?

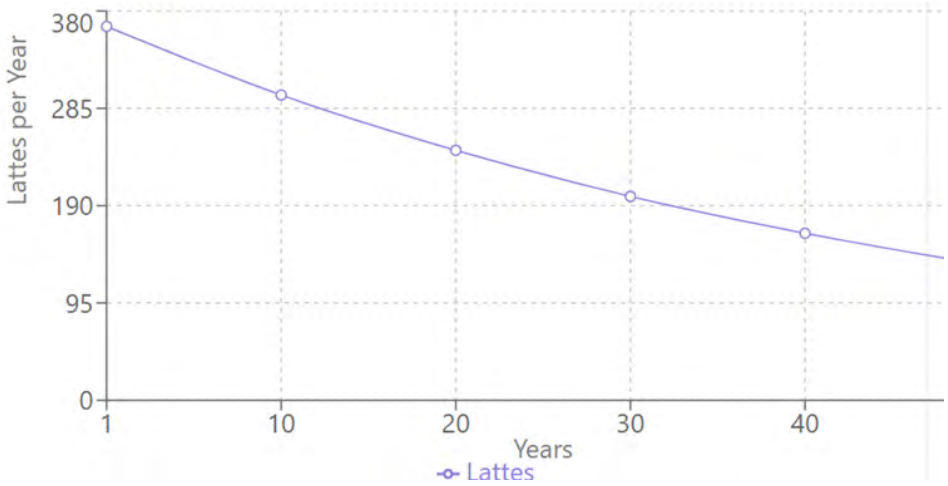
Imagine your client is a big Starbucks fan who has just retired. You are asked to create a fixed budget for Grande lattes. Let us assume the current price is $4.45, so you budget $1,624 per year for your client's daily Venti latte habit.

However, as time passes, the Fed's target 2% inflation begins to affect the price of their latte and the purchasing power of your fixed coffee budget. Let us see how this plays out over time:

1. **Year 1**
   Their $1,624 buys them 365 lattes, one for every day of the year.
2. **Year 10**
   Their budget now only buys 298 lattes. They must go without their latte for 67 days of the year.
3. **Year 20**
   They can now afford 244 lattes, missing out for 121 days, or about four months of the year.
4. **Year 30**
   Their budget stretches to just 199 lattes. They will be without their daily latte for 166 days, nearly half the year.
5. **Year 40**
   They can only buy 163 lattes, going without for 202 days, more than half the year.
6. **Year 50**
   Their initial budget now only buys 133 lattes, so they will have their Starbucks fix for just over one-third of the year.

Number of Starbucks Lattes Purchasable per Year

Source: Dunham & Associates Investment Counsel, Inc., 2025



This illustrates how inflation steadily erodes your purchasing power over time. Even though their coffee budget had stayed the same, what started as a daily treat became an occasional luxury as the years passed.

The same holds true for any fixed-income payment the retiree receives over time. Inflation may be a smaller factor with shorter life spans but may become significant if retirees live much longer.

Living Longer, Eating More

Modern retirement planning requires the industry to shift its thinking and challenge long-held assumptions to address evolving realities. As mentioned, the two powerful forces driving this transformation are increased human longevity and persistent inflation.

To illustrate the size of this change in thinking, our analysis now focuses on food costs, the single essential expense category without which we do not need to worry about longevity and, for that matter, inflation.

We examined this one basic living expense through the lens of extended lifespans and cumulative inflation. It is a compelling example of why traditional retirement planning approaches may no longer suffice for modern retirees facing decades of inflation across all expense categories while potentially living well into their nineties or beyond.

We started by understanding how much of our disposable income is spent on food. According to the USDA, in 2023, we spend, on average, 11.2% of our disposable income on food.[2] In my case, I am sure it is significantly more!

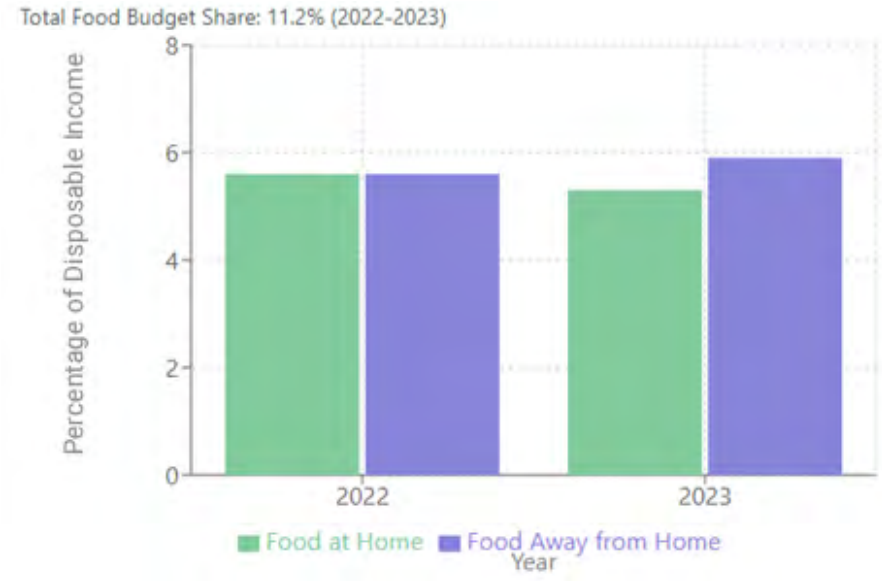
In their analysis, the USDA noted that total food spending remained constant at 11.2% of disposable income in both 2022 and 2023. What did change was food-at-home spending decreased from 5.6% in 2022 to 5.3% in 2023, reflecting a shift away from home food preparation

Food-away-from-home spending increased from 5.6% of disposable income in 2022 to 5.9% in 2023. This reached a historic high since tracking began and continues the upward trend of the pre-pandemic.

Living Longer, Eating More

U.S. Food Spending as Percentage of Disposable Income

Source: USDA, 2023



Based on USDA data, a retiree with $100,000 in disposable income will spend $11,200 a year on food ($100,000 × 11.2% = $11,200).

Next, we want to examine the impact of inflation on this food expense. According to the USDA, food inflation has averaged 3.26% yearly over the last 50 years, from 1974 to 2023. [3]

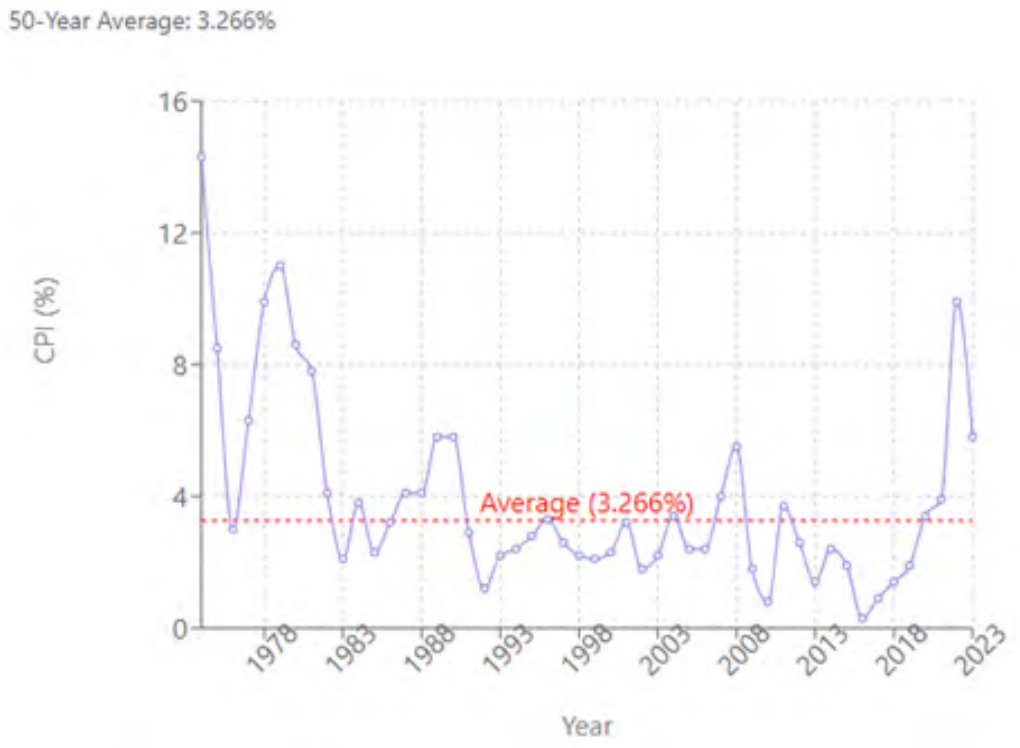
During the last 50 years, inflation varied widely. It included the high inflation of 1974 to 1981, which saw consistently high food inflation, often above 6%, a moderation period from 1982 to 2019, which saw generally lower and more stable inflation rates, and the recent volatility from COVID-19 from 2020 until the end of 2023, which saw a sharp increase in food inflation.

The red dashed line in the chart below shows the long-term average of 3.266% with three notable spikes. 1974 was the highest, at 14.3%, followed by 1979, at 11.0%, and, more recently, 2022, at 9.9%.

Living Longer, Eating More

Food Consumer Price Index (1974-2023)

Source: USDA, 2023



Eating Your Assets

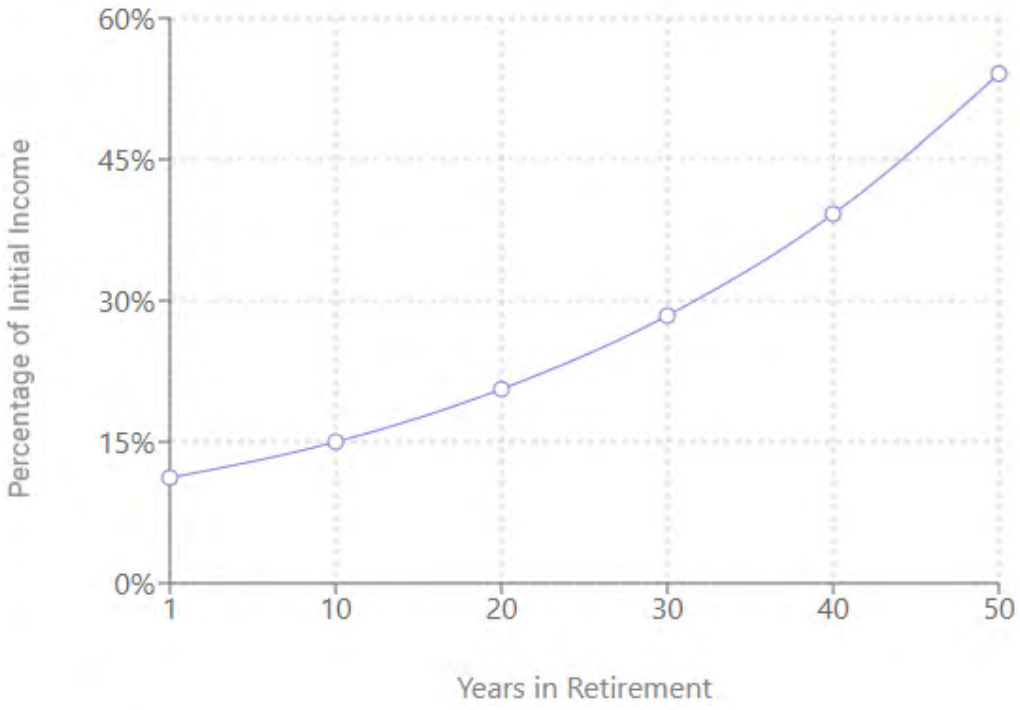
Using the historical Food Consumer Price Index data from 1974-2023 of 3.266%, assuming disposable income of $100,000 and following the current U.S. consumer spending pattern, this retiree allocates $11,200 of their income to food. This includes daily eating, such as breakfast, lunch, and dinner at home, occasional eating out, and maybe a relaxing glass of wine daily.

This initial allocation appears manageable, yet the compound effect of food inflation creates a startling progression:

Living Longer, Eating More

Annual Food Costs as Percentage of Initial Income

Source: Dunham & Associates Investment Counsel, Inc., 2023



Within 20 years, annual food costs climbed to $20,626, consuming 20.6% of the initial income. By this point, the retiree had spent $309,225 on food alone. In standard current-day planning, this can be successfully planned assuming the client passes away in the mid-to-late eighties.

However, the true impact of inflation becomes more pronounced in later years, highlighting our concern about longevity paired with inflation. After 30 years, annual food expenses reach $28,443, requiring 28.4% of the original $100,000 income, and they would have eaten $556,410 of their assets.

This progression continues, with food costs surging to $54,091 annually by year 50, demanding 54.1% of the $100,000 initial income. The cumulative impact is over $1.36 million of assets they would have eaten.

We view this as a blind spot in traditional retirement planning, as we do not allocate enough growth.

It is significant that food costs alone could consume over half of a retiree's initial disposable income after 50 years and that they would have eaten over $1.3 million.

And if the client wanted to feed their spouse, they would have eaten over an estimated $2.7 million of assets combined.

Living Longer, Eating More

Food Cost Milestones Over Extended Retirement

Source: USDA, 2023

Retirement Period	Annual Food Cost	Percent of Initial Income	Cumulative Food Cost
After 10 Years	$14,957	15.0%	$129,979
After 20 Years	$20,626	20.6%	$309,225
After 30 Years	$28,443	28.4%	$556,410
After 40 Years	$39,224	39.2%	$897,285
After 50 Years	$54,091	54.1%	$1,367,362

Initial Annual Income: $100,000

Moderate, Yet Concerning

We were curious to see if the numbers drastically changed if we exclude periods of extreme inflation like 1978-1981 and 2020-2023. This allowed us to examine food costs using a more modest average inflation rate of 2.718%.

Not surprising to us, the impact on retirement resources is still concerning.

The progression is less dramatic but still worrying, starting with the same $100,000 of disposable income and $11,200 allocated for food.

After 20 years, annual food costs rise to $18,642, consuming 18.6% of the initial income, with cumulative food expenses reaching $292,462.

By year 30, the annual food cost grows to $24,376, requiring 24.4% of the original income.

The 40-year mark sees annual food expenses reach $31,874, consuming 31.9% of initial income, with cumulative costs of $792,499.

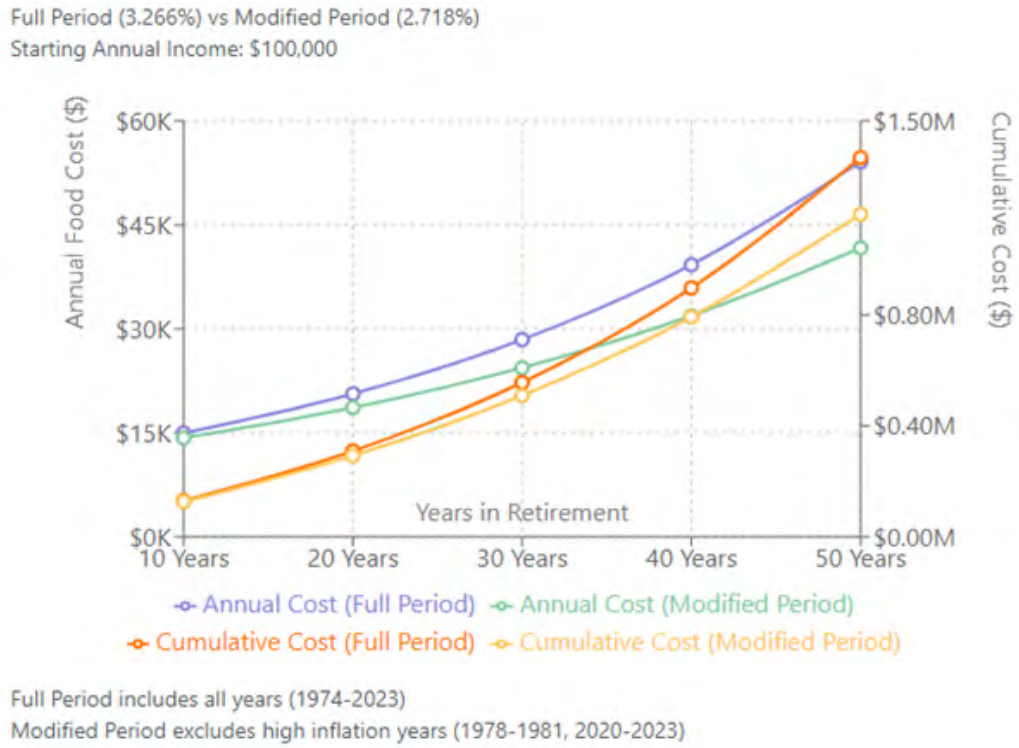
At 50 years, even under this more moderate inflation scenario, annual food costs reach $41,677, requiring 41.7% of the initial income, with total food expenditures estimated to surpass $1.16 million.

Feed your spouse, and you eat over an estimated $2.3 million in assets.

Living Longer, Eating More

Impact of Different Inflation Scenarios on Food Costs

Source: Dunham & Associates Investment Counsel, Inc., 2025



This "better case" scenario, excluding periods of high inflation, still presents a fundamental challenge to traditional retirement planning. While the result is less severe than our earlier analysis, it is still significant. This underscores our point that even in a more favorable inflation environment, increased longevity and persistent inflation demand new retirement planning approaches beyond traditional investment strategies.

The Sequence of Risk Reexamined

The traditional understanding of the sequence of returns risk in retirement requires a fundamental re-examination. The financial services industry has historically focused on protecting retirees from negative returns in the early years of retirement. However, while important, this perspective presents an incomplete picture of modern retirees' challenges.

Extended longevity and persistent inflation have created a new paradigm that demands a broader risk assessment. Our analysis reveals that even positive but overly conservative returns early in retirement can also prove detrimental to long-term financial security as negative returns.

This insight challenges the conventional approach to retirement planning. When accounting for extended retirement periods, the impact of modest early returns, though positive, may need to generate more

growth to sustain purchasing power throughout a lengthy retirement period.

This new understanding of sequence risk compels financial professionals to balance protection against market downturns with the critical need for portfolio growth that can support a retirement potentially spanning up to four decades or longer.

The Fable of the Tortoise and the Hare

As both the tortoise and the hare approached retirement, the tortoise was fuming.

For his entire life, the hare had beaten him in every competition they ever had, showcasing her superior speed. Now, in retirement, the tortoise was going to seek revenge.

Knowing the hare's propensity for quick starts, the tortoise knew a growth objective for the hare's retirement assets could lead her to sequence risk and, as a result, decimate her retirement plan.

The tortoise decided to use his slowness to what he thought would be to his advantage. He was not going to take risks early in retirement.

Starting with $1 million each, the hare and the tortoise would each have hypothetical 12-year returns of 8%, then 12-years at 6%, then 4%, and 2% for the final 12 years.

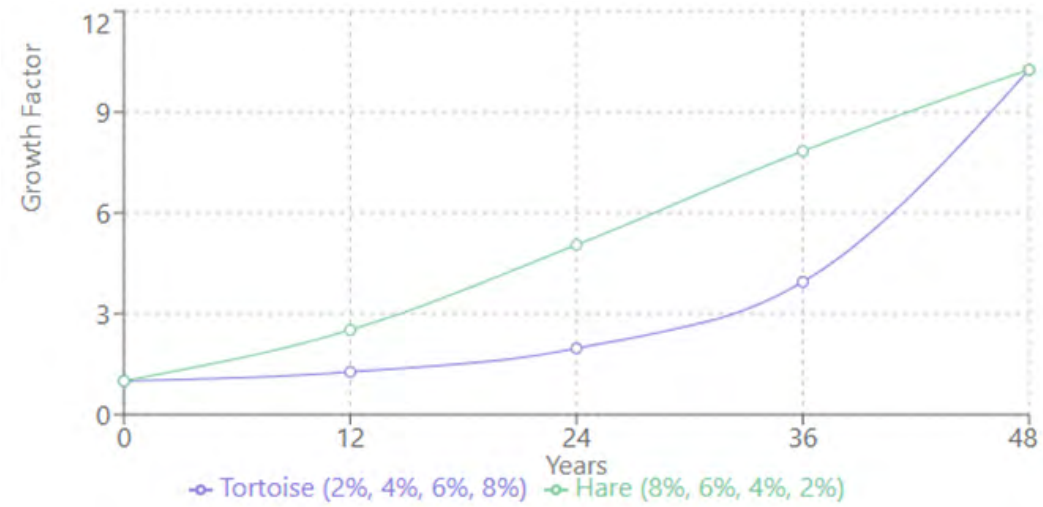
The tortoise, wanting to limit risk, received 2% for the first 12 years of his retirement, 4% for the next 12 years, 6% for 12 years, and 8% for the final 12 years.

The hare, always wanting to start fast, received 8% for the first 12 years of her retirement, 6% for the next 12 years, 4% for 12 years, and 2% for the final 12 years.

Both the tortoise and the hare would receive an identical annual hypothetical return of 5%.

Tortoise vs Hare Investment Growth

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.



In this example, let us examine the key characteristics of both the Tortoise and Hare investment strategies to understand the sequence of return risk when you have low returns to start retirement and live for a long time.

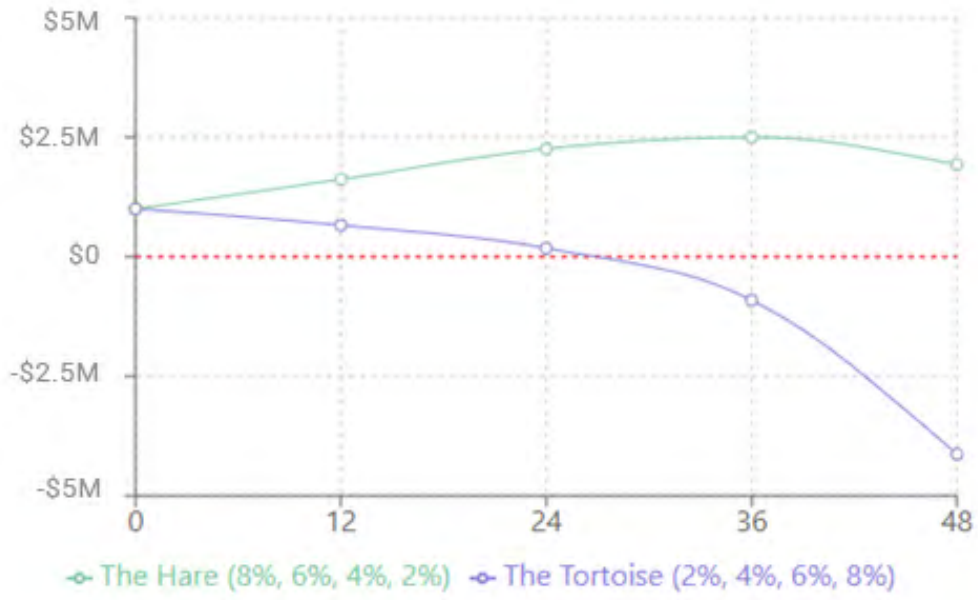
Throughout the entire 48-year period, both the Tortoise and the Hare strategies consistently yielded positive returns. Neither strategy experienced any years of negative growth in this hypothetical example.

The Tortoise strategy saw steadily increasing positive returns, from 2% up to 8%, while the Hare strategy had decreasing but always positive returns, from 8% down to 2%. This consistent positive performance, though varying in magnitude, means that both strategies provided continuous growth without any years of loss during this hypothetical retirement period.

This underscores a crucial point of our new understanding of the sequence of risk.

Investment Growth: The Tortoise and the Hare

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.



Both the tortoise and the hare started with the same $1 million retirement account and withdrew $40,000 annually, adjusted for 2% inflation.

With lower initial returns, the Tortoise strategy depletes its funds by the 27th year of retirement despite increasing returns in later years.

The Hare strategy, helped by higher early returns, had over $1.9 million in its retirement account after 48 years, even with the same returns, just a different sequence of returns.

The concept of sequence risk in retirement planning is evolving due to increasing lifespans. Traditionally, the focus was on mitigating the impact of negative returns early in retirement. However, being too conservative can become a sequence risk as retirements stretch longer.

The industry must balance protecting against early market downturns and positioning portfolios for sufficient long-term growth. Overly conservative strategies, while hedging against short-term volatility, may not generate the returns needed to sustain an extended retirement.

The Retirement Investment Paradox™

As a financial advisor, preparation for a client's longer potential life span can make retirement planning challenging. We give this challenge a name: ***The Retirement Investment Paradox ™***. It stems from a financial advisor's conflicting choices between growth and safety in retirement asset allocation planning.

The three main risks that define the Retirement Investment Paradox™ include:

- inflation
- increased longevity (up to 40 years or longer)
- sequence risk.

A trip to Hawaii

Think of retirement planning as sailing a ship from San Diego to Hawaii.

The goal is to reach Hawaii (a comfortable retirement) with enough supplies (money) to last the journey.

1. **Inflation:**
   Think of inflation as a constant headwind. It steadily pushes against the ship, making progress harder and requiring more supplies (money) than initially expected.

2. **Increased Longevity:**
   What if mid-voyage, you discovered that Hawaii is farther away than you initially calculated? This means you will now be on the boat longer, and your supplies may not last for a longer journey.

3. **Sequence Risk:**
   Picture unpredictable storms during your voyage. If a major storm hits (poor sequence of returns, especially in the first few years of retirement), it can damage the ship and deplete supplies, making the rest of the journey precarious. Or if you went too slow early in the trip, basking in the Pacific Ocean sun, only to find that you will not have enough supplies to last the entire journey.

And there lies the paradox.

Sailing at full speed with unfurled sails is analogous to a growth investment strategy. It exposes the sailboat to devastating storms, as sequence risk can devastate a retirement portfolio in turbulent markets.

Sailing too cautiously with reduced canvas is like a conservative investment strategy. While this approach offers protection from storms, it risks depleting supplies before reaching Hawaii, just as conservative investments may not overcome inflation or fund an extended retirement.

Like a financial advisor, the captain must balance these competing paradoxical challenges, keeping sufficient speed for an increasingly long journey while protecting the boat from catastrophic damage. Neither maximum speed nor maximum safety alone can ensure success.

Solve for inflation and living longer

As we all live longer, today's retirees require their investments to grow to combat inflation and fund potentially longer retirements. Historically, equities have been an asset class that has provided growth for living longer and generally outpaced inflation over the long term.

Assuming the current 65-year-old may live another 40 years or more, when we look at equities from December 1984 to the end of December 2024, the S&P 500 delivered an annualized return of 11.76% during this period, including reinvested dividends.

This performance exceeded the average annual inflation rate of 2.79%, resulting in a real inflation-adjusted return of 8.97%.

For perspective, a $100,000 investment in December 1984 would have grown to approximately $8,539,958 by December 2024. In contrast, simply keeping up with inflation would have required only $300,632 to maintain the same purchasing power.

It is important to note that this period included several major market downturns, including five bear markets, the second-worst market decline in the S&P 500's history, and the "lost decade" for stocks.

Paradox

While equities are an asset class that may effectively combat inflation and provide growth for living longer, they can also cause sequence risk, devasting even the best-planned retirement.

Solve for Sequence Risk

However, a financial advisor can plan a retiree's portfolio with less volatile assets like annuities, bonds, and bucket strategies to defend against sequence risk.

Paradox

While they may do an great job on sequence risk, they may not provide the growth needed for long-term inflation and longer life expectancy.

The paradoxical tension between the need for growth and safety creates **The Retirement Investment Paradox™**, where the assets that best provide long-term growth also pose the most significant short-term risks.

The strategies that can mitigate these short-term risks may not provide the growth to overcome inflation and thoughtfully plan for the 65-year-old who may live another 40 years or more in retirement.

For example, a retiree begins with $1 million and earns a conservative 4% annual return after all fees and expenses. The retiree withdraws $40,000 annually, increasing by 2% annually to account for inflation. Despite the steady positive returns, their account will be depleted by year 34 of retirement.

$1 Million Portfolio: 4% Annual Return with Inflation-Adjusted Withdrawals

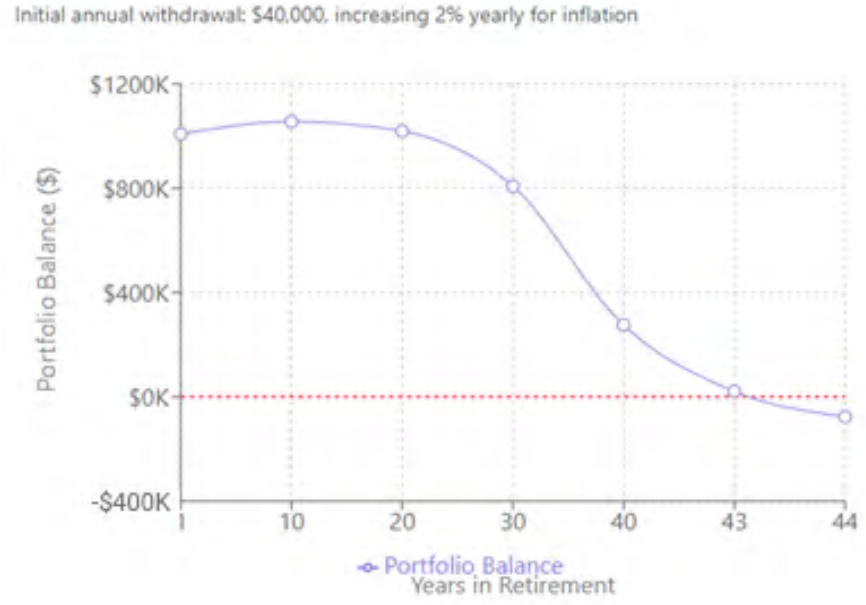
Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.

This shows the potential flaw in too-conservative planning. While a 4% net return after fees and expenses helps protect against sequence risk, the combined effects of inflation and extended longevity ultimately exhaust the portfolio. The modest return proves insufficient to sustain a retirement that could last four decades or longer.

Interestingly, the dual impacts of living longer and 2% inflation also have a devastating effect on a 5% net return after fees and expenses. The chart below shows that even a moderately conservative return of 5% net exhausts the portfolio after 43 years.

$1 Million Portfolio: 5% Annual Return with Inflation-Adjusted Withdrawals

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.



A 5% net annual return after fees and expenses offers significantly better portfolio longevity and extends retirement funding deeper into the later years. However, this return rate may still not be enough for retirees who experience exceptional longevity. The reality of increased life expectancy requires a fundamental reconsideration of what constitutes adequate investment returns for retirement portfolios.

This evolving longevity challenge compels the financial industry to undertake a thorough reassessment. Traditional portfolio theory, conventional investment offerings, and established compliance frameworks may all require substantial revision to address the demands of funding retirements that could span four decades or longer. The financial services industry must adapt its practices and assumptions to serve better clients who may live well beyond current historical life expectancy patterns.

The Sequence of Inflation Risk

While financial advisors often focus on the Sequence of Investment Risk, another critical threat to retirement savings exists, which is the Sequence of Inflation Risk.

This risk can be equally devastating to retirement portfolios, particularly when inflation rates exceed expected levels and erode purchasing power systematically over time.

To understand the impact of varying inflation rates on retirement savings, consider this scenario comparing two clients over 40 years. Both clients achieve a hypothetical 6% average annual return after fees and expenses throughout their retirement years. These returns suggest that the Sequence of Returns Risk does not affect either portfolio.

The inflation experience over these 40 years averages 2.5% but is distributed in different phases. During the first decade, inflation runs at 4%. In the second decade, it decreases to 3%. The third decade sees inflation at 2%; in the final decade, it drops to 1%. This structured distribution of inflation rates allows us to analyze how varying inflation levels affect retirement savings over an extended period, even when investment returns stay consistently favorable.

Consider two different sequences of these inflation rates:

Scenario 1

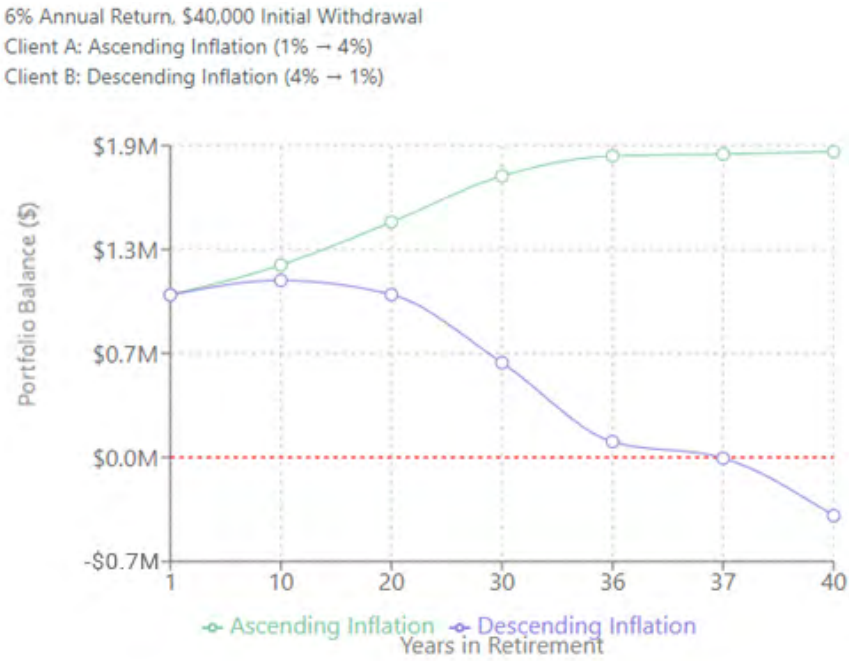
Client A experienced inflation in ascending order, meaning 1% for the first ten years, 2%, 3%, and 4% for the last decade. In this hypothetical case, your client is still solvent, and their assets have nearly doubled over the 40 years.

Scenario 2

On the other hand, **Client B** experienced inflation in descending order, starting at 4% for the first ten years, then 3% for the next ten, followed by 2%, and finally dropping to 1% in the last decade. Despite the same average inflation rate, Client B depleted their assets by the 37th year.

Impact of Sequence of Inflation Risk on $1 Million Portfolio

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.



This comparison illustrates the significant impact of the sequence of inflation rates on long-term financial outcomes, even when the two scenario average return rates stay constant.

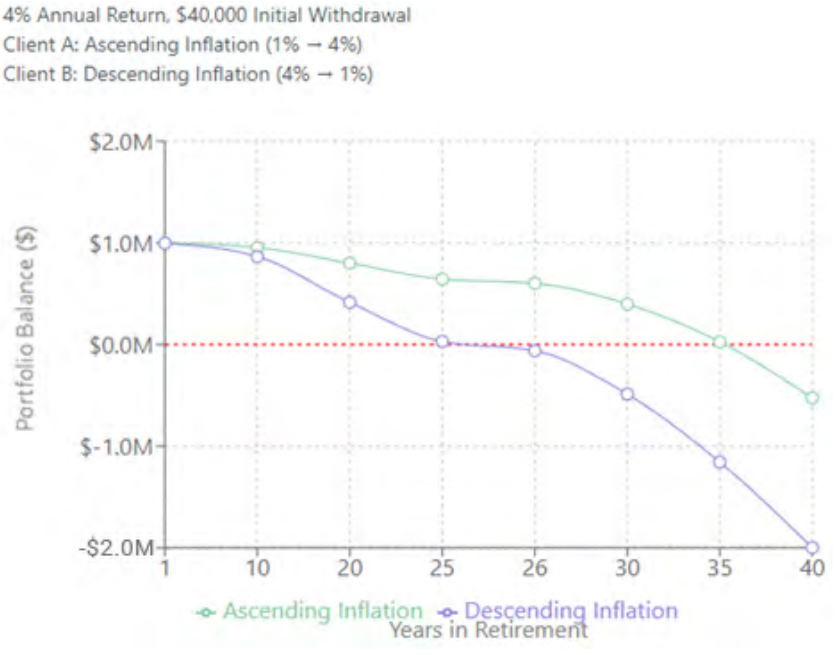
The importance of growth, as explored in the Retirement Investment Paradox™, becomes clear when we examine scenarios with lower returns and how the Sequence of Inflation Risk™ becomes more pronounced as we experience lower average returns on our portfolios.

Consider a situation where both clients achieved only a hypothetical 4% net rate of return after fees and expenses. Under these circumstances, the impact of the inflation sequence becomes magnified.

With an average net 4% rate of return, Client A would exhaust their retirement savings in the 36th year, while Client B would deplete my funds by the 26th year. This highlights how the sequence of inflation rates can significantly accelerate the depletion of retirement assets when combined with lower, more conservative investment returns.

Impact of Sequence of Inflation Risk on $1 Million Portfolio

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.



Early higher inflation followed by the Fed's 2% Inflation

The Sequence of Inflation Risk shows us an important aspect of retirement planning that demands our attention. This concept demonstrates how the timing and magnitude of inflation can dramatically affect the longevity of retirement savings. Let us explore this phenomenon through a diverse set of scenarios.

Let us look at a retiree with a net 6% average rate of return on their portfolio, taking $40,000 income increasing at varying high inflation levels early in retirement, followed by a more moderate 2% inflation rate.

Our analysis examines various inflation and duration scenarios to understand their impact on retirement assets. By testing different combinations of inflation rates and periods, we show how even shorter periods of elevated inflation can significantly affect retirement savings over extended lifespans. This allows us to assess the vulnerability of retirement assets to inflationary pressures, particularly as retirees face the prospect of funding retirements that could span multiple decades.

We show that brief periods of higher inflation and increased longevity may create substantial challenges for maintaining retirement assets for the long term. This relationship between inflation, time, and asset preservation is critical in modern retirement planning.

Inflation Rate	First Number of Years in Retirement	Inflation Rate After Initial Higher Inflation	You May Run Out of Funds After This Many Years of Retirement
4%	11 years	2%	In year 40
5%	7 years	2%	In year 39
6%	5 years	2%	In year 39

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.

In the first scenario, a retiree experiences 4% inflation for the first 11 years of retirement, followed by 2% inflation thereafter. This individual's retirement savings last for 40 years before depletion.

In the second scenario, the retiree starts with a 5% inflation rate for the first 7 years of retirement, again followed by 2% inflation. Despite the shorter duration of high inflation, this retiree's funds are exhausted in year 39.

The third scenario shows that with 6% inflation for just the first 5 years of retirement, followed by 2% inflation, the retiree still faces fund depletion in year 39.

These scenarios underscore two crucial insights. Even relatively brief periods of high inflation early in retirement can have long-lasting and detrimental effects on financial stability.

Second, growth in a retiree's portfolio is needed as this assumes a hypothetical 6% net rate of return. Less return accelerates the depletion of assets in these examples.

This occurs because high inflation in the early retirement years erodes purchasing power more rapidly, forcing larger withdrawals from the retirement portfolio. These increased withdrawals, in turn, leave less capital to grow and compound over the remaining retirement years, even when inflation moderates later.

Multi-Generation Retirement™

In our discussion of the Retirement Investment Paradox™, we used the analogy of a boat sailing from San Diego to Hawaii. What if, as you were sailing, you discovered your parents' ship, which had embarked on Hawaii before you, and they had exhausted their supplies? They planned for a shorter voyage, never expecting to sail this far. Now, you must share your supplies between the two ships. Your carefully planned resources must stretch to sustain both boats.

Then, as you navigate this new challenge, you spot your grandparents' boat, also depleted of provisions. They, too, had planned for a shorter journey, but favorable winds kept them sailing far longer than anyone expected. Now, your original supplies must support three ships through their extended voyages.

This is the essence of Multi-Generation Retirement™. One generation's retirement resource potentially supports multiple generations simultaneously. Just as our sailor never planned to provision multiple ships, today's retirees may find themselves supporting their own retirement, their longer-living parents, and perhaps even grandparents.

Each additional generation creates exponential strain on the original retirement resources, much like each additional ship depletes the carefully planned supplies more rapidly.

I want to illustrate this new emerging challenge with a personal example. I have a friend who is 67 years old and seriously considering retirement. He is caring for his 102-year-old mother. His situation points to a shift in retirement planning. As he plans his and his wife's retirement, he must also prepare for his mother's ongoing care and support.

One generation supporting two generations of retirees.

This scenario differs from the traditional "sandwich generation" concept, where working adults simultaneously support aging parents and growing children. In the sandwich generation, individuals maintain active employment, allowing them to adapt their income to meet multi-generational responsibilities.

This reality changes our understanding of retirement planning. The need for substantial portfolio growth becomes more important than ever as retirees must address persistent inflation and increased longevity across multiple generations.

The combination of extended longevity, inflation, and multi-generational support obligations creates unprecedented planning challenges.

A Three-Generation Example

Consider this.

A couple has a child at age 30. When that child turns 70, he wants to retire, but because his parents did not plan to live as long as they did, they are now 100 and broke. He now has two generations to support in retirement.

That child, when he was 30 years old, had a child - a daughter. When she turns 70, she decides to retire. With poor planning, her parents are 100 and broke, and her grandparents are 130 and broke. She now must support three generations of retirees.

And do you know what none of those mentioned above children have that previous generations had?

An inheritance.

This is the concept behind Multi-Generation Retirement™.

This is not science fiction. This is why we must change our thinking about retirement, account for much longer lifespans, and position portfolios to provide for opportunities to increase growth in our retiree portfolios in calculated ways.

The Longevity-Inflation Impact

Why is this new paradigm of longevity coupled with inflation important?

This is because we find a fundamental misunderstanding of modern retirement mathematics. While the industry has long recognized increased longevity and persistent inflation as challenges, these two forces create a more complex relationship than traditionally understood. They interact in ways that fundamentally challenge traditional retirement planning assumptions.

We identified what we call the Longevity-Inflation Impact. This mathematical relationship exposes a blind spot in current retirement planning. Our research shows that while the required returns to combat longevity and inflation show a linear progression, the consequences of inadequate returns create an exponential deterioration of retirement resources.

The implications of this discovery explain some of our earlier discussion points:

- ✓ The Retirement Investment Paradox™ showed us that conservative portfolios, traditionally considered "safe," may actually increase the risk of failure over extended retirements.
- ✓ The Sequence of Inflation Risk showed us how the timing of inflation can accelerate portfolio depletion.

However, it is the mathematical relationship between these two factors, longevity and inflation, which presents the most important concept. When portfolios fail to maintain adequate returns above inflation over extended periods, the impact on portfolio depletion becomes exponential. Our research demonstrates why:

- ✓ Portfolios that appear adequately funded under traditional metrics fail decades earlier than expected.
- ✓ Each percentage point shortfall below required returns creates accelerating portfolio depletion.
- ✓ Conservative investment approaches, while appearing prudent, may actually hasten portfolio failure.

The Longevity-Inflation Impact leads us to question whether the industry's current approach to "conservative" retirement planning might systematically undermine retirees' long-term financial security.

It requires us to reconsider what constitutes appropriate returns for retirements that may span four or five decades.

Target Sustainability Rate

Much like the mythical fountain of youth promised eternal vitality, the Target Sustainability Rate represents our search for portfolio sustainability in an era of extended retirements coupled with inflation.

And as much as the fountain of youth was not found hundreds of years ago, modern science may be on the verge of discovering it now. So too, are we looking to find the proverbial fountain of youth in the form of a model for returns that can help a portfolio in the times we believe we have ahead of us?

To understand this relationship, we tested multiple scenarios over 50 years. We examined hypothetical, net returns after fees and expenses of 6%, 5%, 4%, and 3%, against four inflation scenarios of 1%, 2%, 3%, and 4%. Each scenario assumed a $1 million portfolio with initial withdrawals of $40,000, increasing at the respective inflation rate.

We wanted to see if there was a relationship between longevity, inflation, and portfolio sustainability. We identified what we term the Target Sustainability Rate which is the minimum return rate required to sustain portfolios through extended retirements in varying inflationary environments.

The hypothetical examples shown below assume a 4% annual withdrawal rate, and reinvestment of all dividends. The hypothetical, annual rates of return are not guaranteed and do not reflect the performance of any specific investment. Actual returns will fluctuate and may be higher or lower than the assumed rate.

1% Inflation

What we found at only a 1% average inflation rate for 50 years:

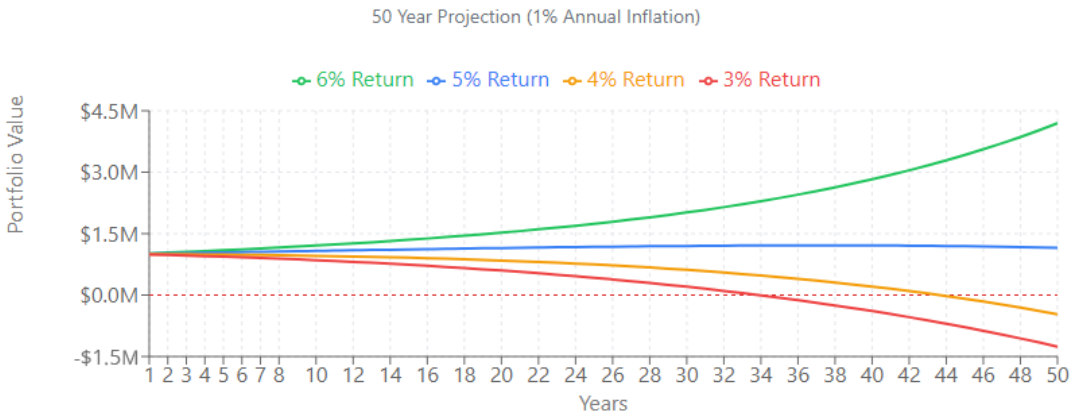
- ✓ 6% net return portfolio would quadruple to over $4 million.
- ✓ 5% net return portfolio would maintain value but barely keep pace.
- ✓ 4% net return would deplete by year 44.
- ✓ 3% net return would deplete by year 34.

At 1% inflation, we found that a 6% net after-fee return appears to hit our Target Sustainability Rate, meaning it gave us the return needed to maintain purchasing power while supporting withdrawals over extended periods and providing growth. This rate provides a buffer against both inflation and longevity risk.

The 5% net return did not deplete the account but did not grow the account either at 1% inflation. The lower returns create a slow but inevitable depletion of assets.

Target Sustainability Rate

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.



2% Inflation

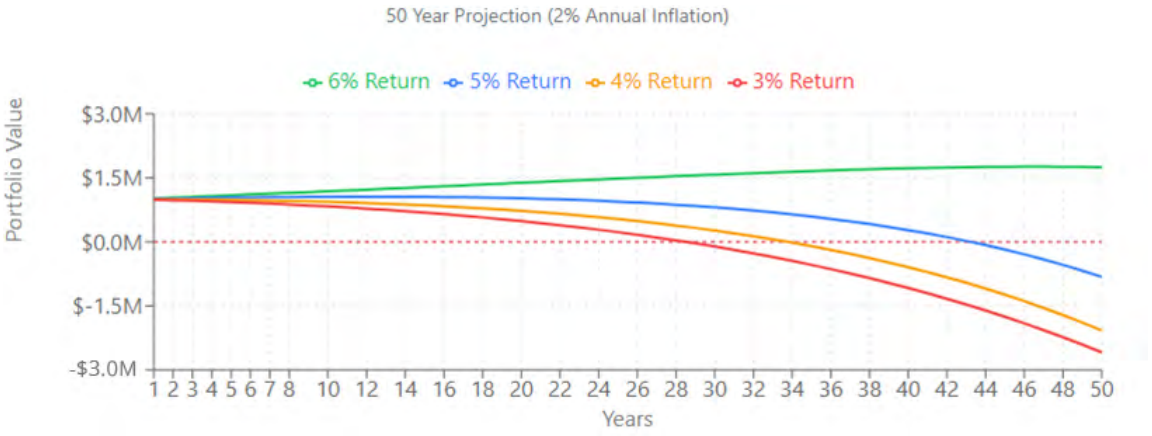
We believe that 2% inflation represents a more likely scenario, yet the results are eye-opening in this hypothetical scenario.

- ✓ 6% net return would maintain growth, ending at $1.75M.
- ✓ Surprisingly, a 5% net return would deplete the portfolio by year 43.
- ✓ 4% net return would deplete by year 34.
- ✓ 3% return would deplete by year 28.

At 2% inflation, annual withdrawals increase from $40,000 to $105,552, and a net 6% return is the minimum return for maintaining purchasing power and not depleting the portfolio in 50 years. Returns below a net 6% result in significantly earlier portfolio depletion than with 1% inflation, which is not surprising in itself but points to the possible harm overly conservative portfolios may bring to the retiree living longer and living with inflation.

Target Sustainability Rate

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.



3% Inflation

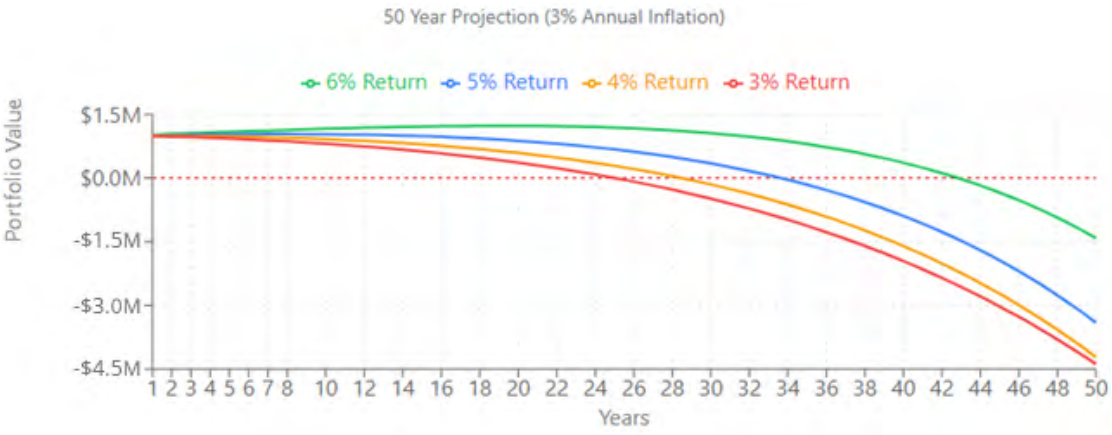
At a slightly higher inflation rate of 3%, none of the portfolios can withstand the Longevity-Inflation Multiplier. The depletion timeline of this hypothetical portfolio is as follows:

- ✓ 6% return: would deplete by year 43.
- ✓ 5% return: would deplete by year 33.
- ✓ 4% return: would deplete by year 28.
- ✓ 3% return: would deplete by year 25.

Even a 6% net return cannot sustain the portfolio for 50 years as annual withdrawals more than quadruple, increasing from $40,000 to $170,249. For the other tested returns, depletion would occur much earlier than with 1% or 2% inflation, which suggests that higher returns may be needed for sustained retirement income in higher inflation environments.

Target Sustainability Rate

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.

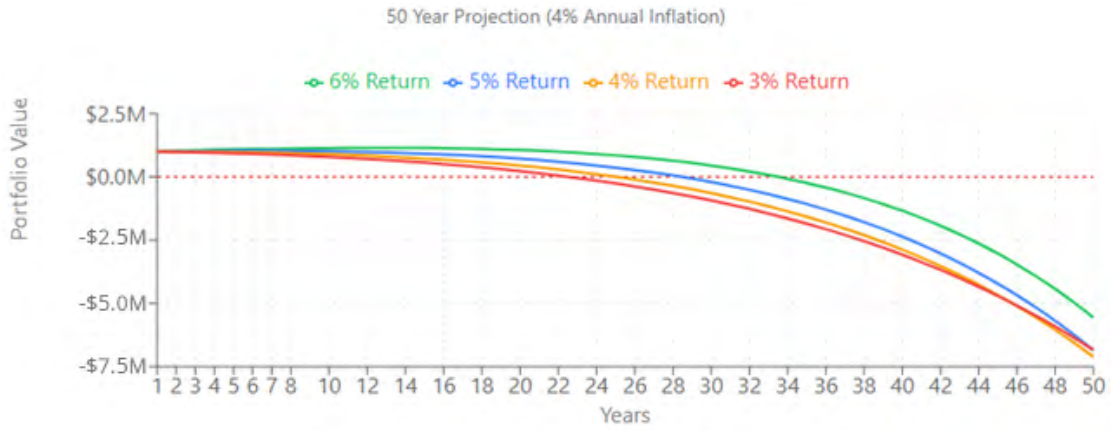


4% Inflation

All portfolios were depleted by the 34th year, with the 3%, 4%, and 5% net return portfolios failing to make it to the 30th year.

Target Sustainability Rate

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.



Why Is This Important?

Required returns progress linearly. To maintain sustainability, each 1% increase in inflation requires approximately a 1-2% increase in portfolio returns.

However, portfolio depletion accelerates exponentially. When returns fall short of required levels, the pace of portfolio depletion accelerates dramatically. Small shortfalls in returns lead to disproportionately faster portfolio depletion. This acceleration effect becomes more pronounced as inflation increases.

The returns required for portfolio sustainability are significantly higher than commonly assumed. Even at

the Federal Reserve's 2% inflation target, portfolios require net returns of 6% to be sustainable over extended retirements.

Second, the consequences of falling short of these required returns are severe. The accelerating nature of portfolio depletion means that what appears to be a slight shortfall in returns can lead to dramatically earlier portfolio failure.

The implications are profound. What the industry has labeled "prudent" retirement planning might systematically undermine retirees' financial security in the new world of living longer and with inflation. It is the exact opposite of its intended effect. This requires fundamentally reimagining retirement planning methodology and portfolio construction, challenging core assumptions that have guided the industry for three-quarters of a century.

The Retirement Real Return Rule

As we tinkered with the Target Sustainability Rate, we discovered what we call the Retirement Real Return Rule. This rule provides the minimum returns above inflation needed to sustain the modern retiree.

Our analysis - as shown in the hypothetical scenario below - reveals what we view as a fundamental truth that challenges the core assumptions of retirement planning. The critical component in retirement sustainability is not achieving a specific nominal return but rather maintaining a mathematical spread above inflation. This changes how we approach retirement planning in an era of increased longevity coupled with inflation.

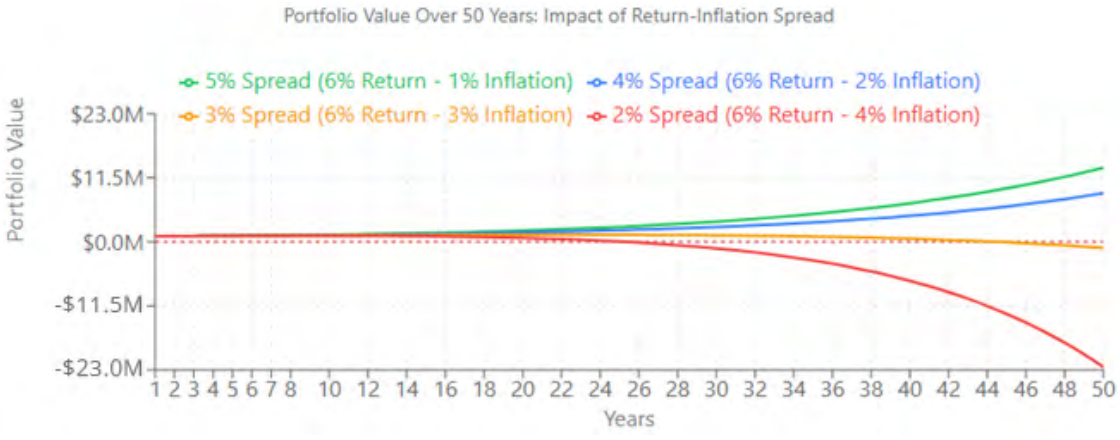
If you examine our search for the Target Sustainability Rate, we have identified that maintaining a 4%-5% spread above inflation represents the minimum threshold for long-term portfolio sustainability.

This mathematical relationship explains why portfolios that appear adequately conservative by traditional standards may systematically fail over extended time horizons.

- ✓ At 1% inflation, a 6% net return would thrive (5% spread)
- ✓ At 2% inflation, a 6% net return would barely sustain (4% spread)
- ✓ At 3% inflation, a 6% net return would fail (3% spread)
- ✓ At 4% inflation, a 6% net return would collapse (2% spread)

Retirement Real Return Rule

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.



This leads us to propose the Retirement Real Return Rule. For sustainable 40+ year retirements, we believe that portfolio returns must exceed inflation by approximately 4-5%. This rule provides a dynamic framework that adapts to varying economic environments.

- ✓ 1% inflation environment requires ~5-6% returns.
- ✓ 2% inflation environment requires ~6-7% returns.
- ✓ 3% inflation environment requires ~7-8% returns.
- ✓ 4% inflation environment requires ~8-9% returns.

The implications are interesting.

At the Federal Reserve's 2% inflation target, retirees would require minimum net returns of 6-7%, which is significantly higher than traditional conservative allocations typically provide. This suggests that conventional "conservative" retirement strategies may be systematically undermining retirees' long-term financial security.

The Retirement Real Return Rule represents more than an incremental advancement in retirement planning theory. We believe it requires a fundamental reimagining of what we have been taught constitutes prudent retirement planning. In an era where retirements may span up to four or five decades, the industry must shift from focusing on nominal returns to maintaining critical spreads above inflation. The mathematics of long-term portfolio sustainability demands this.

This paradigm shift challenges financial advisors to reconsider their basic risk, return, and portfolio construction assumptions. Being too conservative in retirement may represent the greatest threat to long-term financial security. When you first hear this, it is an uncomfortable insight, but one that the financial community needs to examine.

Interestingly, each extra 1% of withdrawals from a retirement account adds an additional 1% to the spread over inflation.

The future of retirement planning does not lie in achieving arbitrary return targets but in maintaining the mathematical relationships that drive long-term sustainability. The Retirement Real Return Rule provides the framework for this essential change in modern retirement planning.

The Retirement Real Return Rule in Various Scenarios

Our prior discussion established the Retirement Real Return Rule, which suggests that for retirement sustainability, one must maintain a 4-5% return spread above inflation. However, this assumes a 4% annual withdrawal rate, and our curiosity led us to see if this held in different withdrawal percentages. We examined 3%, 4%, and 5%, creating what we call the Retirement Real Return Rule.

A 3% Withdrawal Rate

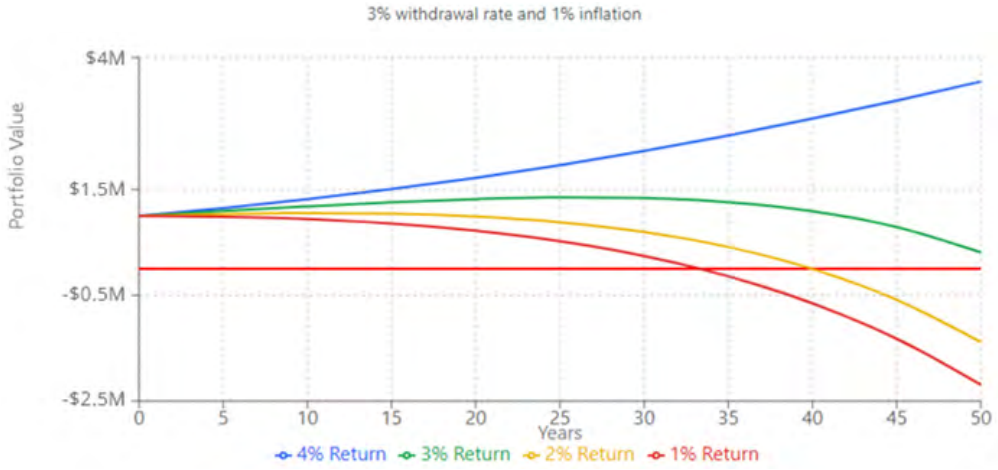
3% withdrawal rate and 1% inflation

This is likely the most favorable scenario with low long-term inflation and a low withdrawal rate.

Under these conditions, achieving a net 4% return (3% spread above inflation) may be sufficient for portfolio sustainability, whereas a net 3% return (2% spread above inflation) narrowly avoids complete depletion of assets. However, if returns drop to a net 2% (1% spread above inflation), the portfolio becomes exhausted in year 41.

Retirement Real Return Rule

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.

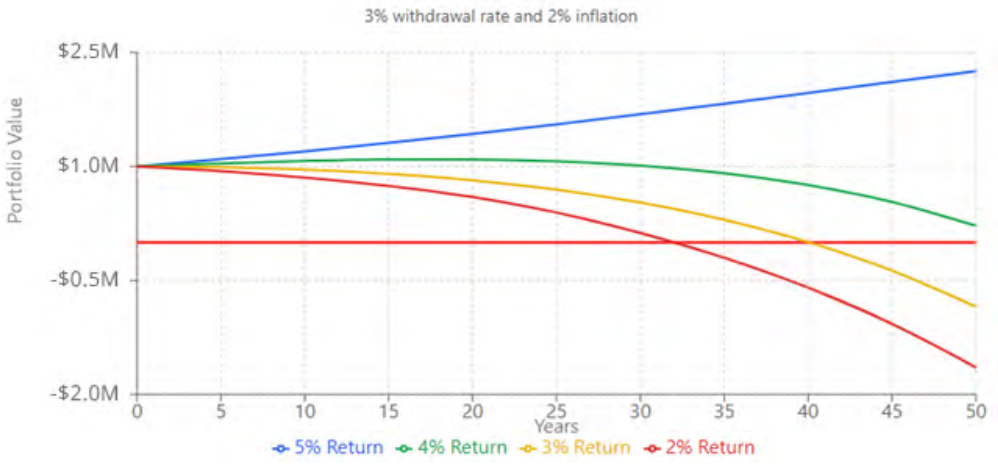


3% withdrawal rate and 2% inflation

One percentage point more in inflation forces a net 5% return to stay comfortably in retirement. A net 4% return would barely make it through the longevity period, and we would deplete the account in the 41st year with a net 3% return.

Retirement Real Return Rule

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.

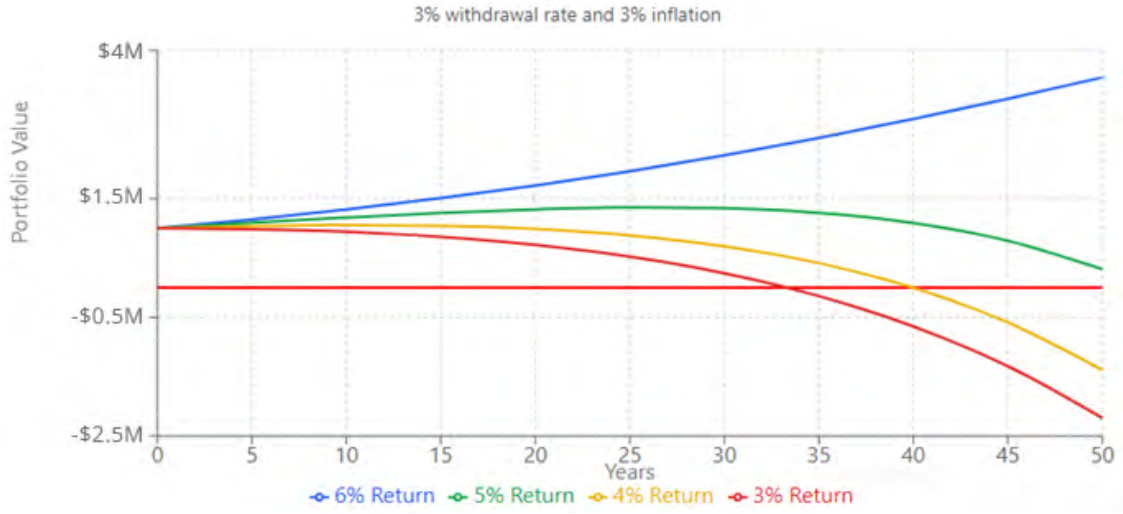


3% withdrawal rate and 3% inflation

Now, we are seeking a 6% net return at 3% inflation with a 5% net return barely making it and the portfolio would deplete in the 40th year of the 4% net rate of return.

Retirement Real Return Rule

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.



This data implies that the traditional view of what constitutes a “conservative” portfolio may need to be reconsidered. Even with a modest 3% withdrawal rate, maintaining a spread of at least 3% above inflation may be necessary for long-term sustainability.

3% Withdrawal Rate Analysis

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.

Inflation Rate	Great Returns	Good Returns	Depletes
1% Inflation	5% net (4% spread)	4% net (3% spread)	3% net (2% spread)
2% Inflation	6% net (4% spread)	5% net (3% spread)	4% net (2% spread)
3% Inflation	7% net (4% spread)	6% net (3% spread)	5% net (2% spread)

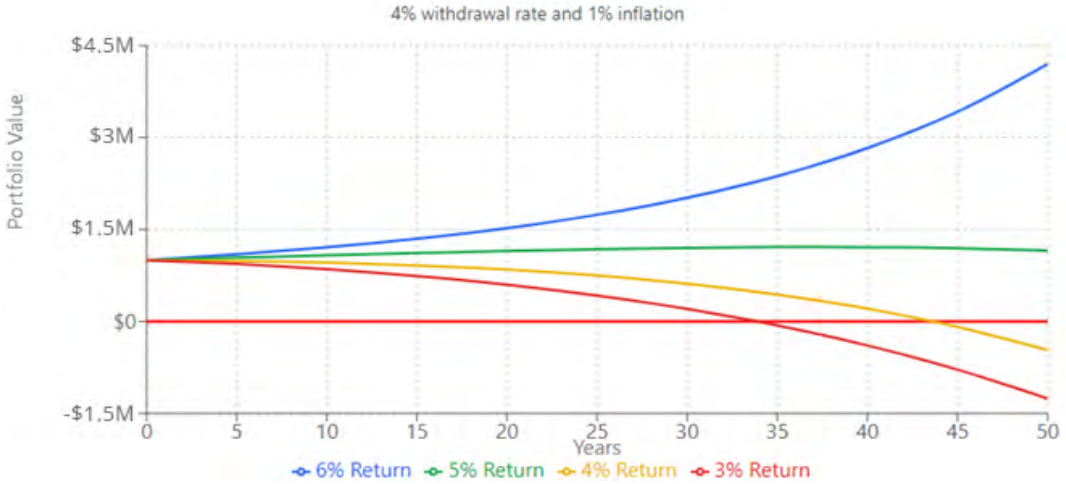
A 4% Withdrawal Rate

4% withdrawal rate and 1% inflation

This incorporates the traditional 4% rule for income at favorable long-term inflation. We see that a net 6% return may be needed or a 5% spread over inflation. At a 5% net return, we may be good but would fail at a conservative net 4% return, failing in year 44.

Retirement Real Return

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.

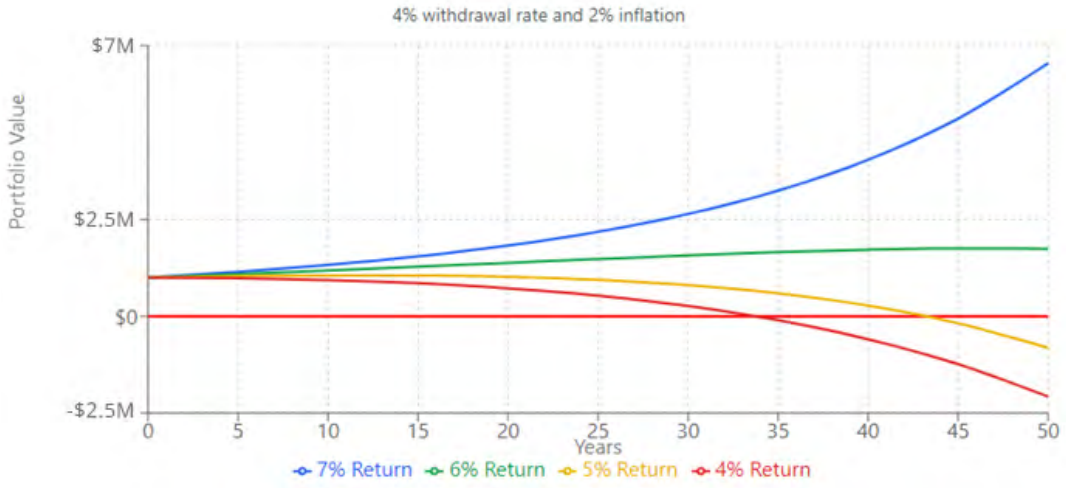


4% withdrawal rate and 2% inflation

We are back to our friend 2% inflation and the 4% withdrawal rule. We see that now a net 7% return or a 5% spread over inflation is needed for optimal results. At a 6% net return and a 4% spread, we may be good but would fail at a moderate risk of a net 5% return, depleting the account in the 44th year.

Retirement Real Return

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.

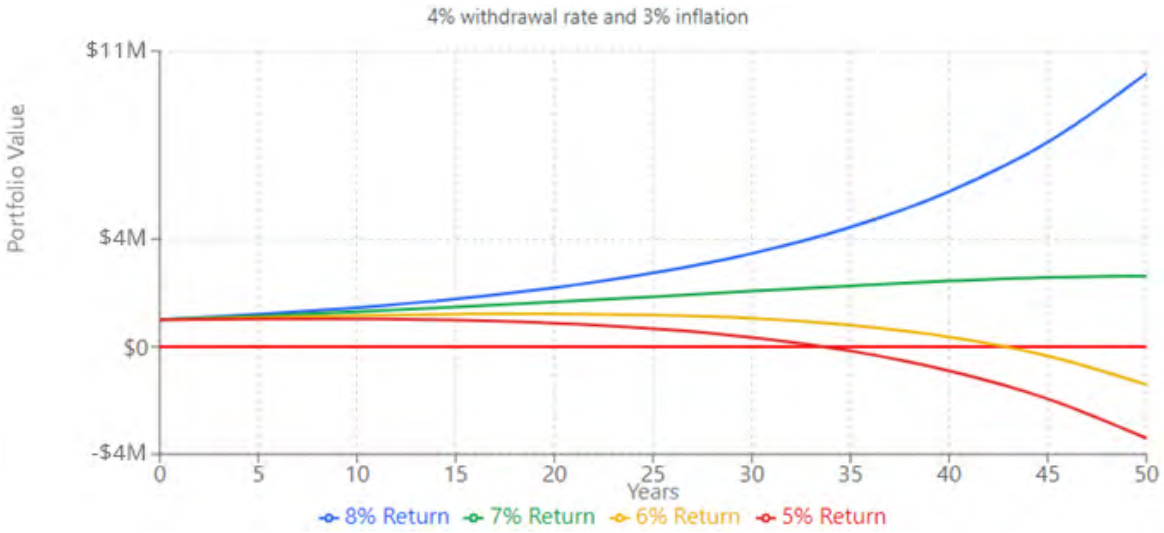


4% withdrawal rate and 3% inflation

At higher 3% inflation, our returns and spread over inflation increase. We now need a 5% spread or a net 8% return for the best results. A net 7% return and a 4% spread over inflation would give us good results, but we would fail at a net 6% return, which is a 3% spread, depleting the account in year 43.

Retirement Real Return

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.



The traditional 4% rule faces significant challenges in various inflation and longevity assumptions. Conservative portfolios targeting 4-5% returns may be too conservative even in low inflation and may require more growth-oriented allocation than traditionally recommended.

4% Withdrawal Rate Analysis

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.

Inflation Rate	Great Returns	Good Returns	Depletes
1% Inflation	6% net (5% spread)	5% net (4% spread)	4% net (3% spread)
2% Inflation	7% net (5% spread)	6% net (4% spread)	5% net (3% spread)
3% Inflation	8% net (5% spread)	7% net (4% spread)	6% net (3% spread)

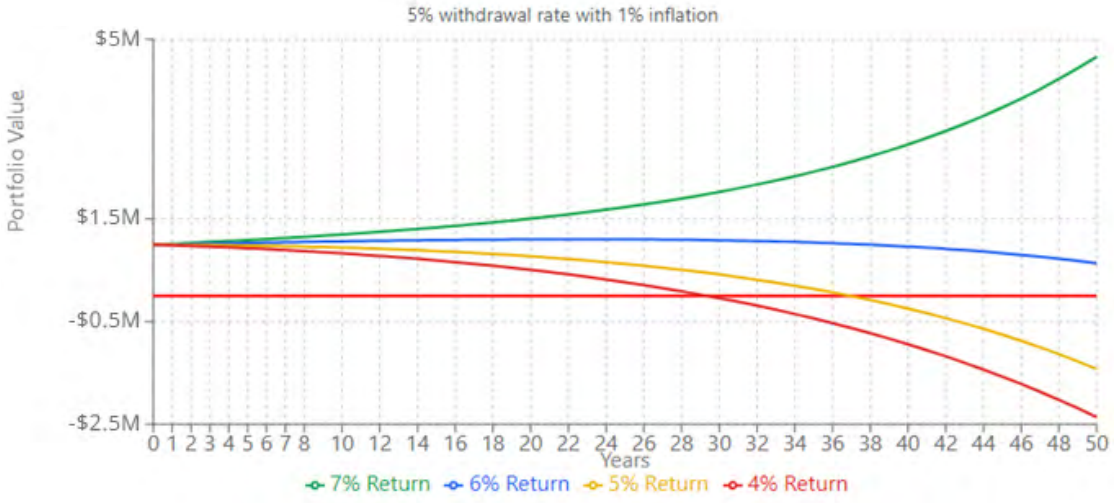
A 5% Withdrawal Rate

5% withdrawal rate and 1% inflation

A high withdrawal rate, even at lower inflation, requires a net 7% return, representing a 6% spread over inflation. A 5% spread or a net 6% return gives us a good outcome, but we fail at a net 5% return, representing a 4% spread over inflation, depleting the account in year 37.

Retirement Real Return Rule

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.

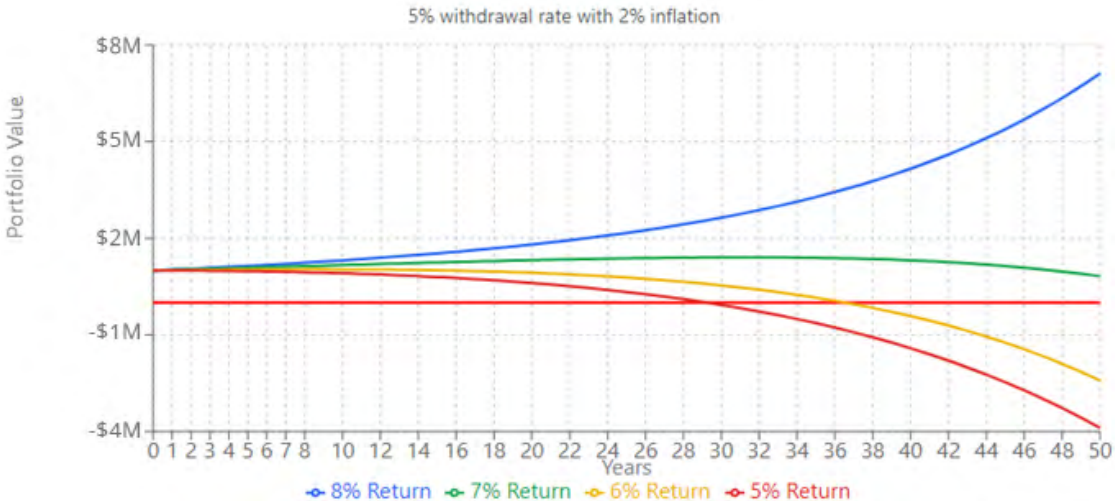


5% withdrawal rate and 2% inflation

At 2% inflation, we now would require a net 8% return or a 6% spread over inflation. We now would need a 5% spread inflation or a 7% return for our good result, and we would deplete the account in year 37 by giving your client a net 6% rate of return, which is a 4% spread over inflation.

Retirement Real Return Rule

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.

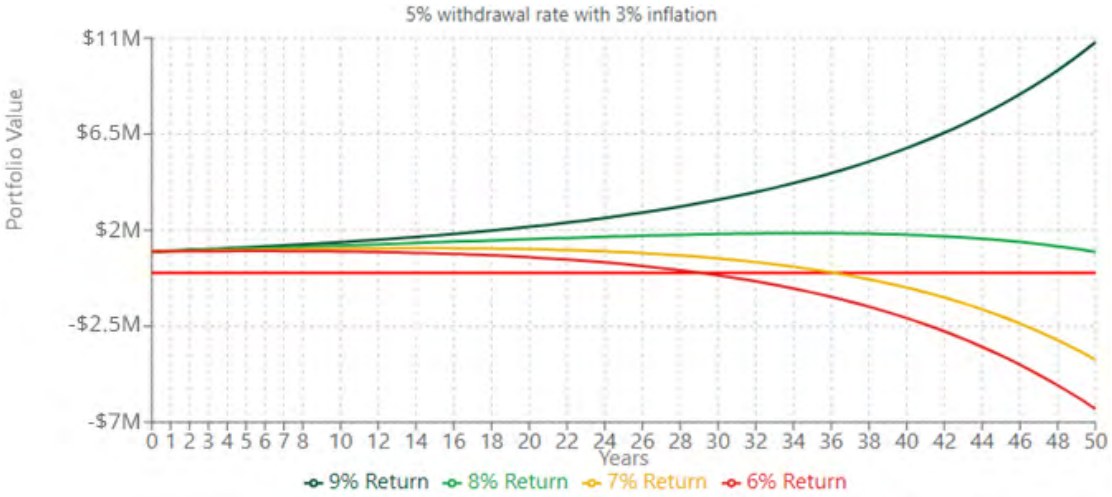


5% withdrawal rate and 3% inflation

We need a net 9% return at higher inflation, representing a 6% spread over inflation. A net 8% or 5% spread over inflation would give us a good outcome, but at this higher income level and a higher level of inflation, a net 7% return representing a 4% spread over inflation would deplete the account in year 37.

Retirement Real Return Rule

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.

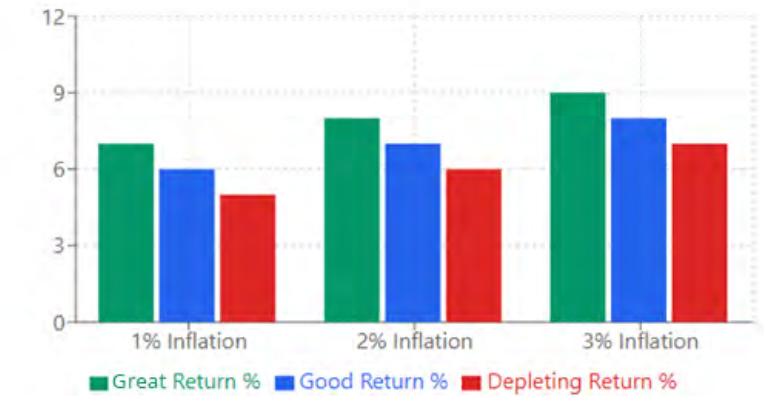


This higher income requires the highest returns of all withdrawal rates. We need a consistent 6% spread above inflation for great results. Each 1% increase in inflation requires a 1% additional return. This may require more aggressive portfolio management and perhaps taking on more market risk.

5% Withdrawal Rate Analysis

Source: Dunham & Associates Investment Counsel, Inc., 2025. For illustrative purposes only.

Inflation Rate	Great Returns	Good Returns	Depletes
1% Inflation	7% net (6% spread)	6% net (5% spread)	5% net (4% spread)
2% Inflation	8% net (6% spread)	7% net (5% spread)	6% net (4% spread)
3% Inflation	9% net (6% spread)	8% net (5% spread)	7% net (4% spread)



Our research implies that living to age 120 is not the greatest risk facing future retirees. It is surviving financially to age 120. What the industry labels as "prudent" and "conservative" retirement planning may systematically undermine retirees' financial security, creating a generational crisis where millions outlive their assets.

The mathematics of extended longevity demand we consider abandoning traditional notions of conservative retirement planning. The greatest risk to retirees is not market volatility, it is the invisible threat of insufficient returns compounded across decades.

Closing Thoughts

This research's message is not about pursuing "growth at all costs" but rather about applying growth through thoughtful analysis and mathematical necessity. Our research shows that financial advisors must fundamentally rethink portfolio construction and retirement planning to achieve the needed return-inflation spread for long-term sustainability.

This reconceptualization demands a practical framework that balances growth with prudent risk management while acknowledging the realities of extended longevity and persistent inflation.

It starts with planning

We propose what we call ***Adaptive Financial Oversight™ (AFO)*** approach. This method treats retirement income management like running a personal finance company, with the retiree as the CEO and the financial advisor as the CFO.

Using a wide array of outstanding retirement planning programs available to the financial advisor, the AFO approach utilizes these software programs to create annual balance sheets, detailed budgeting analyses, and Monte Carlo testing.

Key features of the AFO approach include:

1. Annual reassessment of distribution rates based on market performance and actual expenses.
2. Proactive adjustments to withdrawals, considering upcoming major expenses or lifestyle changes.
3. Continuous monitoring of the overall financial picture, not just investment performance.
4. Monitoring the spread over inflation rates for portfolio projected growth rates.

This approach moves beyond rigid rules, allowing real-time adaptation to market conditions and personal circumstances. By leveraging advanced financial planning tools, advisors can provide clients with a more comprehensive and responsive retirement income strategy.

Portfolio Construction

Move beyond traditional "60/40" conservative allocations, maintaining higher equity allocations throughout retirement. Financial advisors should consider alternative investments that have historically outpaced inflation, such as real estate and certain commodities.

Allocation strategies

It may be time to move beyond the traditional "Bucket" approach. Financial advisors should consider ***Purpose Oriented Portfolios***. The approach here maintains four distinct portfolios for the retiree, all with a specific purpose.

1. **Distribution Portfolio**
   This portfolio should consistently maintain more than one year of income in investments such as bank deposit programs, or stable value investments, such as money market accounts.

   This stable value portion should be fed by an investment portfolio that can provide growth but with a tactical overlay to help mitigate traditional sequence risk.

2. **The Flex Portfolio**
   This portfolio is intended to be a financial buffer for unplanned expenses or opportunities outside the annual budget. Its primary functions are twofold:

   - **Emergencies**
     To plan for readily accessible funds for unexpected costs.

   - **Fun**
     It may allow your clients to pursue spontaneous but meaningful experiences, such as an unplanned trip or a special event, which were not initially factored into their annual retirement budget.

   If you plan well in the Distribution Portfolio, the Flex Portfolio can be more growth-oriented.

3. **Healthcare Portfolio**
   This portfolio is specifically designed to address healthcare cost. It can work in conjunction with long-term care insurance policies, self-fund health care costs in the absence of insurance, or a combination of both.

   This portfolio can adopt a more growth-oriented investment approach, given its long-term nature. A growth-tilted strategy would seek to outpace healthcare inflation and maximize the resources available for future medical needs.

4. **Legacy Portfolio**
   The Legacy Portfolio is designed for your client's inheritance to family or other heirs. Given its long-term horizon, it is typically structured with a strong emphasis on growth to potentially maximize long-term returns seeking to build substantial wealth for future generations.

The Advantages of Purpose Oriented Retirement Portfolios

In our view, the advantages of the Purpose Oriented Retirement Portfolio include:

1. It creates what we believe is a more explicit mental accounting for your client, as each portfolio has a distinct purpose, making it easier for retirees to understand and emotionally connect with their financial plan.

2. Separating immediate needs and income distribution from long-term goals like emergencies, healthcare, and legacy allows for more appropriate risk allocation in each portfolio.

3. This may offer an advantage by limiting the need for frequent allocation changes across the entire retirement plan. By segregating assets into distinct portfolios with specific purposes, this approach naturally reduces the temptation to make sweeping changes based on short-term market fluctuations. Each portfolio maintains its focus regardless of current market conditions, which may help mitigate emotionally driven decisions.
4. A dedicated healthcare portfolio may address a major retirement risk that some strategies may overlook.
5. Much later in retirement, if needed, it may be easier to adjust allocations based on changing life circumstances without disrupting the entire strategy.
6. Clearly defined purposes for each portfolio can reduce anxiety about market fluctuations and long-term planning.
7. Legacy portfolio aligns financial strategy with estate planning goals.
8. The strategy may better address the risk of outliving one's assets by separating immediate needs from long-term growth through the three long-term growth portfolios.

Financial advisor to client communication strategies

Financial advisors should reframe "risk" discussions from short-term volatility to long-term sustainability. This requires our industry to help financial advisors educate clients on the mathematical necessity of maintaining growth.

Portfolio review sessions should focus on real returns (spread above inflation) rather than nominal returns. The use of stress testing for longer periods can help the client understand.

Dynamic Rebalancing

The industry should move beyond calendar-based rebalancing and implement return-based rebalancing triggers to help maintain flexibility to adjust allocations based on changing inflation environments.

Retirement has fundamentally changed, yet our industry's approach to retirement planning has not kept pace with the evolving realities of living longer and inflation. The industry must reimagine retirement planning. Through our research, we have identified mathematical relationships and developed frameworks that challenge long-held assumptions about "conservative" retirement planning.

As we look to the future, financial advisors who embrace these new paradigms and adapt their practices accordingly will be better positioned to help their clients navigate the unprecedented challenges of extended retirements. The consequences of maintaining outdated approaches could systematically undermine the financial security of an entire generations of retirees.

Sources

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All examples are hypothetical and are for illustrative purposes only.

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DRIP uses several assumptions as determined by the client and advisor, including but not limited to, life expectancy, inflation rate, growth rate of the portfolio, monthly cash flow needs, and total value of investable assets in the program. Any changes in assumptions may materially affect the plan and limit its usefulness.

DRIP is not an insurance product and is not guaranteed. Clients may loose money.

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